

TC Document

UR-T1125

I. BASIC INFORMATION FOR TC

▪ Country/Region:	Uruguay (UR)
▪ TC Name:	New Institutional Framework for Competitiveness Support (Nuevo Marco Institucional de Apoyo a la Competitividad)
▪ TC Number:	UR-T1125
▪ Team Leader/Members:	Team Leader: Gustavo Crespi (CTI/CUR). Alternate Team Leader: Pablo Garcia (TIU/CUR); Team members: Carolina D'Angelo (CSC/CUR); Claudia Di Fabio (CSC/CUR); Ernesto Stein (RES); Eduardo Fernandez Arias (RES); Alessandro Maffioli (IFD/CTI); Mariela Rizo (IFD/CTI); Krysia Avila (LEG/SGO)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination	Client Support
▪ Date of TC Abstract authorization:	08/21/2015
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Uruguay, through its Office of Planning and Budget (OPP), Presidency of the Republic, Uruguay
▪ Executing Agency:	Inter-American Development Bank (IDB), Gustavo Crespi (CTI/CUR)
▪ Donors providing funding:	Public Capacity Building Korea Fund for Economic Development (KPC)
▪ IDB Funding Requested:	US\$500,000
▪ Local counterpart funding, if any:	US\$50,000
▪ Disbursement period (which includes Execution period):	24 months for disbursement and 18 months for execution
▪ Required start date:	12/01/2015
▪ Types of consultants:	Firms and Individual Consultants
▪ Prepared by Unit:	Competitiveness and Innovation Division (IFD/CTI)
▪ Unit of Disbursement Responsibility:	CSC/CUR
▪ TC Included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ GCI-9 Sector Priority:	Priority Area 1: Equity and Productivity Priority Area 3: Growth and Welfare

II. JUSTIFICATION AND OBJECTIVES OF THE TC

2.1 Uruguay's growth record has been strong over the past decade, with rates of investment and total factor productivity growth sufficient to reduce the gap in output per worker vis-à-vis more advanced economies. Nevertheless, according to OECD estimates (Johansson et al., 2012) the share of innovation in Total Factor Productivity (TFP) growth has remained low (15%). This contrasts with the role that innovation played in TFP growth of successful countries such as Korea, Finland, Ireland and

- Singapore that had a share of innovation in TFP growth higher than 40% when they had the same per-capita income as Uruguay's today. This stubbornly low contribution of innovation to TFP growth creates serious concerns about the long-term sustainability of the growth process.
- 2.2 Low innovation is normally the result of multiple market, coordination and systemic failures that hinder private sector investments in intangible assets and uncertain technology development projects. Over the last decade, the Government of Uruguay has put in place several policy instruments to start dealing with these failures. As such, an interesting process of institutional capacity building has taken place and nowadays a complex system of agencies and ministries have been mandated with the goal of fostering innovation, competitiveness and productivity growth in the country. Increasing public resources have been invested so far and an important process of learning-by-doing among policy makers is taking place.
 - 2.3 However, an important and problematic feature of the current institutional setting for competitiveness public support is the absent of a high-level coordination organization. Indeed, the current institutional framework is dominated by a constellation of public implementation agencies (e.g. the National Research and Innovation Agency, the International Trade and Investment Promotion Institute, the National Training Institute, the National Direction for Small and Medium Enterprises, the Industrial Fund, the National Institute for Cooperatives, the National Development Fund, among others). Each one hangs from a different Ministry with very little interaction and *horizontal coordination* among them. This institutional failure leads to a process of fragmentation and increasing overlapping among the instruments managed by the different agencies leading to low efficiency, reduced impacts and increased overheads.
 - 2.4 In addition, there is also a lack of *vertical coordination* between the strategic bodies in charge of establishing the national priorities for competitiveness and innovation support (the different ministries and the Office of Planning and Budget - OPP) and the corresponding implementing agencies. Indeed, although different Ministerial Cabinets (such as the Innovation Cabinet, the Productive Development Cabinet, etc.) were in principle responsible for providing programmatic guidelines to the different agencies, they have barely produced strategic documents and their meetings have been rather sporadic. The consequence has been the lacking of strategic guidance for the implementation agencies leading to an excessive use of horizontal interventions. The reason for this problem, again is the absent of a high-level body with the technical capabilities to carry out prospective analysis and to align the operations of the different agencies along national priorities.
 - 2.5 In order to deal with this serious problem, the new government, which came to power in March 1st 2015, has announced the creation of the National Competitiveness System (*Sistema Nacional de Competitividad – SNC*). The new system will amend the coordination failures by establishing a “holding” of agencies dealing with competitiveness and innovation issues hanging all of them from a Technical Secretariat within the OPP, a high-level coordination organization within the Presidency of the Republic. At the same time, a new Cabinet for Competitiveness, led by the President of the Republic, will be set up where all the different ministries in charge with

competitiveness and innovation policies will coordinate strategies at the policy level. The Technical Secretariat will monitor these decisions, and at the same time will oversee the coordination of implementation among the different agencies. For vertically coordinating policy decision, a new top-down funding mechanism will be necessary in order to guarantee that the operations of the several agencies are properly aligned with the strategic priorities. Furthermore, a performance result framework should be put in place in order to monitor implementation.

- 2.6 At the same time, the legal framework that governs the agencies, will have to be reformed in order to create the incentives for horizontal coordination also at the agency level (e.g. through cross-representation in the boards of the different agencies, rotation of personnel among the agencies and incentives for the implementation of joint-projects). It is expected that by this way, these reforms will increase the coordination and effectiveness of competitiveness and innovation policies in Uruguay, leading to a higher contribution of innovation to productivity growth and a more sustainable growth process. The Government of Uruguay agreed with this diagnostic and requested IDB's support for the implementation of this SNC.
- 2.7 **General Objective.** The purpose of the technical cooperation is to contribute to the implementation of the National Competitiveness System. **Specific Objectives:** in particular, the project will support the Government of Uruguay regarding: (i) strengthening the institutional framework for the design, coordination and implementation of competitiveness and innovation policies and; (ii) building-up of institutional capacities for policy coordination and implementation.
- 2.8 This technical cooperation is consistent with the IDB's Country Strategy with Uruguay 2010-2015 (GN-2626), contributing to the competitiveness and innovation priority. Furthermore, it is also consistent with the new IDB's Country Strategy with Uruguay (2016-2020) – currently under preparation – with regards to the priority area of productivity and competitiveness. The TC is also aligned with the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9) (AB-2764), as it will contribute to the product of public financial systems implemented or renovated. Furthermore, it is consistent with the Innovation, Science and Technology Sector Framework Document (GN-2791-3), and it will contribute with the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2). This project is also aligned with the goals of the Public Capacity Building Korea Fund for Economic Development (KPC) that aims at strengthening public sector management in all fiscal related sectors through assistance aimed at facilitating efficient allocation and use of public sector resources. Additionally, the project is also eligible for financing by the KPC Fund as per the terms of the Agreement entered into between the Ministry of Strategy and Finance of the Government of Korea and IDB on March 19, 2012 (the KPC agreement) and KPC operational guidelines¹ of November 2012.

¹ See KPC fund operational guidelines. See also donor's prior approval letter in Annex IV.

III. DESCRIPTION OF ACTIVITIES/ COMPONENTS AND BUDGET

- 3.1 To reach the objectives the project will finance consultancy activities, travels and experts visits. The implementation of the following components is contemplated.
- 3.2 **Component I. Assessment and Knowledge Sharing.** The aims of this component are to assess the governance for competitiveness and innovation policies in Uruguay and to increase knowledge on best practices for policy coordination. The assessment will focus on: (a) the governance for the vertical coordination of policies; (b) the governance for the horizontal coordination of policies and (c) the critical aspects that the new National Competitiveness System should take into consideration for successful implementation. Competitiveness and innovation policies require the building up of institutional capacities at four levels: strategic, policy design, implementation and monitoring/ evaluation (OECD, 2012; IDB, 2014). Moreover, successful implementation for vertical coordination demands solving the agency problem among levels that require aligning the incentives among the different participating organizations and advanced monitoring systems. Additionally, successful implementation also requires strong public-public collaboration (horizontal coordination) in order to guarantee that public inputs different sectors demand are readily delivered. This will also demand the introduction of incentives and monitoring systems for horizontal collaboration. A team of Korean public sector organizations will carry out this assessment. South Korea has a long and very successful history of competitiveness and innovation policies. This was the result of an institutional learning process that included a series of reforms and feedbacks over time (OECD, 2009; OECD 2014). This experience will constitute a very fertile field for Uruguay's authorities who have identified South Korea as an important source of learning. This component will produce two results: (i) a report with recommendations to improve the governance of competitiveness and innovation policies within the new SNC framework; and (ii) a policy-training workshop with lessons learned from the Korean experience to be held in Montevideo. Key partner organizations from Korea will be STEPI, KIET, MSIP, KISTEP, NRF, MOTIE, KIAT, KEIT and KOTRA, among others.
- 3.3 **Component II. Technical Assistance for the Implementation of the SNC.** This component will finance international and national individual and firms consultants who will prepare background reports regarding the institutional design of the new SNC. In particular, the consultants will produce: (i) a proposal about the optimal design of the SNC, including the design of the Technical Secretariat, the territorial component and the best institutional framework to engage with the private sector (employers and employees) and the academia. Likewise, it should include: (i) mechanisms to integrate these actors in the design and monitor of the competitiveness agenda; (ii) a proposal regarding the operations guidelines and procedures of the different agencies involved in the system, their interaction and how they relate to the Technical Secretariat; and (iii) a results framework that allows the technical secretariat to carry-out an ex-ante assessment of competitiveness and innovation public programs in order to guarantee that best-practice design principles have been followed and consistency of the overall policy mix is respected. At the same time the results framework will generate SMART indicators and mandatory guidelines for ex-post impact evaluation

- 3.4 **Component III. Information Systems and Evaluation.** This component will finance international and national individual and firms consultants who will implement two different activities: (i) the design and support for the implementation of an information technology platform that will allow the technical secretary on-line access to the decisions taken at the agency level both in terms of financial progress and physical outputs with the aim of increasing monitoring capacities of competitiveness and innovation policies; and (ii) the creation of an impact evaluation unit at the level of the technical secretariat of the system with the aim of implementing strategic policy studies and a regular program of impact evaluations for competitiveness and innovation policies. This will include the supply of handbook for impact evaluation of the different types of competitiveness and innovation programs in Uruguay and the training of the responsible officers in each agency.

Indicative Results Matrix: Outcomes

Outcome Statement I: National Competitiveness System (SNC) Operational							
Indicator	Unit of Measure	Baseline	Year	Year 1	Year 2	Goal	Means of Verification
Budget for Competitiveness Programs allocated through the SNC	%	0	2015	0	30	30	Competiveness Cabinet resolution
Outcome Statement II: Increase knowledge of best practices for competitiveness policy coordination							
Indicator	Unit of Measure	Baseline	Year	Year 1	Year 2	Goal	Means of Verification
Authorities at knowledge sharing workshops	#	0	2015	50	0	50	SNC Technical Secretariat report
Outcome Statement III: Strengthening of monitoring and evaluation capabilities							
Indicator	Unit of Measure	Baseline	Year	Year 1	Year 2	Goal	Means of Verification
Financial progress of programs monitored at the SNC level	%	0	2015	0	20	20	SNC Technical Secretariat report

Indicative Results Matrix: Outputs

Component I: Assessment and Knowledge Sharing					
Indicator	Unit of Measure	Year 1	Year 2	Goal	Means of Verification
Assessment Report Approved	#	1	0	1	IDB approval
International Workshop help	#	1	0	1	SNC Technical Secretariat report
Component II: Technical Assistance for the Implementation of the SNC					
Indicator	Unit of Measure	Year 1	Year 2	Goal	Means of Verification
SNC Guidelines approved	#	0	1	1	SNC Technical Secretariat report
Results Framework Approved	#	1	0	1	SNC Technical Secretariat report
Component II: Information Systems and Evaluation					
Indicator	Unit of Measure	Year 1	Year 2	Goal	Means of Verification
ICT platform design approved	#	1	0	1	SNC Technical Secretariat report
ICT platform ready to be launched	#	0	1	1	SNC Technical Secretariat report
IE guidelines approved	#	0	1	1	SNC Technical Secretariat report

Indicative Budget (USD)

Activity/ Component	Description	Activities	IDB/Fund Funding	Counterpart Funding	Total Funding
Component I	Assessment and Knowledge Sharing	1) Assessment report & workshop	90,000	0	90,000
	Sub-Total		90,000	0	90,000
Component II	Technical Assistance for System Design	1) Strategic Design SNC	50,000	0	50,000
		2) Guidelines and Procedures	50,000	0	50,000
		3) RF for Competitiveness and Innovation	50,000	0	50,000
	Sub-Total		150,000	0	150,000
Component III	Information Systems and Evaluation	4) ICT System and Programs	200,000	50,000	250,000
		5) Impact Evaluation Unit	50,000	0	50,000
	Sub-Total		250,000	50,000	300,000
Monitoring and Contingency			10,000	0	0
TOTAL			500,000	50,000	550,000

IV. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 4.1 The Beneficiary has requested that the bank execute the TC. This is based on the Bank's capacity to implement technical cooperation projects, its knowledge to identify highly qualified international consultants, and its experience in similar operations among different countries in the region. Given that the new SNC is in the process of being designed and so the financial systems of the new technical secretariat are not yet implemented, it is considered that execution by the Bank is the best option in order to speed-up implementation. The beneficiary of this TC, the Office of Budget and Planning of the Presidency of the Republic will contribute to the discussion of the terms of reference of the different studies, assist the international consultants during their missions to Montevideo and approve the outcomes of the different studies. Bank's execution is in compliance with the section 4.5 of the Proposal for a new Bank policy on technical cooperation (GN-2470-2), which requires, in case of Bank-executed TCs, that: (a) the beneficiary country or group of countries concurs and (b) the proposed activities are consistent with the Bank's country and /or regional strategy and program
- 4.2 The Bank through CTI and INT specialists will supervise the technical and operational activities related to the project. Although the Bank will be the executing unit of this project, the beneficiary will still have to submit technical reports every six months with information about activities, products and results achieved over the last period. The reports will have to include a schedule for using the resources over the next six months period together with information on lessons learned. The half of year reports will be discussed in monitoring meetings with the beneficiary. Additionally, the technical

cooperation will have an external evaluation by an independent consultant, paid by the project, who will certify the fulfillment of the indicators and goals included in the results matrix.

- 4.3 The procurement of individual consulting services will be carried out by the Bank, in accordance with the IDB's Human Resources Department regulations (AM-650). The procurement of firm consulting services will be carried out by the IDB in accordance with the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9), while the procurement of non-consulting services will be carried out by IDB in accordance with its Corporate Procurement policies (GN-2303-20).

V. MAJOR ISSUES

- 5.1 A risk with the implementation of this TC is that the Government of Uruguay disagrees with the recommendations emerging from the some of the studies and so does not move forward with the policy implementation of some of them. In order to mitigate this risk the project team will be deeply involved in the dialogue with the beneficiary in order to accompany the process of discussion and assimilation of the different policy recommendations.

VI. EXCEPTIONS TO BANK POLICY

- 6.1 There are no exceptions to Bank Policy.

VII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 7.1 This TC does not have environmental issues. Regarding Social strategy, this project will be designed addressing gender and minorities' social inclusion concerns. The TC has been qualified by ESG as category "C" which confirms an environmental, social and / or cultural minimum or no impact.

Required Annexes:

- Annex I: [Request letter](#)
- Annex II: [Terms of Reference](#)
- Annex III: [Procurement Plan](#)
- Annex IV : [Donor's Approval Letter](#)

NEW INSTITUTIONAL FRAMEWORK FOR COMPETITIVENESS SUPPORT (NUEVO MARCO INSTITUCIONAL DE APOYO A LA COMPETITIVIDAD)

UR-T1125

CERTIFICATION

I hereby certify that this operation was approved for financing under the Public Capacity Building Korea Fund for Economic Development (**KPC**) through a communication dated August 21, 2015 and signed by Suyeong Yu, Director of the International Finance Bureau, Ministry of Strategy and Finance of the Republic of Korea. Also, I certify that resources from said fund are available for up to **US\$500,000** in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Original Signed

12/09/2015

Sonia M. Rivera
Chief
Grants and Co-financing Management Unit
ORP/GCM

Date

APPROVAL

Approved:

Original Signed

12/14/2015

Jose Miguel Benavente
Division Chief
Competitiveness & Innovation Division
IFD/CTI

Date